



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

April 9, 2002

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Improvements Are Needed in the
Management of the e-Services Project to Enable Timely
Progress Towards Future Goals (Report Number
2001-20-144)

The subject draft report was issued on July 30, 2001. Since we did not receive the Internal Revenue Service's (IRS) comments within 30 calendar days of the draft report issuance, we released the final report on September 10, 2001. In a memorandum dated February 15, 2002, the Deputy Commissioner for Modernization & Chief Information Officer provided IRS' response to the report. We would like to take this opportunity to provide our feedback on the response.

Recommendation #3

To enable more accurate tracking of total project costs, the Business Systems Modernization Office (BSMO) should consider reviewing time charges monthly for the IRS employees working on the e-Services project to verify the accuracy of the labor costs charged to the project. The time charges should be compared to estimates to make sure the charges are reasonable.

Management's Response

Management did not agree with our recommendation. Accurate capture of IRS labor costs for the BSM project teams is hampered by the existing time keeping system. Although the IRS has project cost accounting subsystems (PCAS) codes established for capturing IRS staff time and travel for modernization projects, systemic and procedure issues remain. The IRS has a Single Entry Time Reporting (SETR) system that can only capture time in 40 hour increments. Many of the e-Services IRS personnel are subject matter experts used much less than 40 hours per pay period.

We are pursuing further refinements to our time keeping procedures to increase the accuracy of IRS labor costs. However, until we put new personnel and financial systems in place, these costs will remain a rough indicator of IRS labor costs. We believe these costs are a small percentage of the overall BSM project costs. To develop, administer, and maintain a parallel system to improve the accuracy of the captured IRS labor costs would be more time-consuming and costly than the value it would provide in evaluating investment decisions.

Office of Audit Comment

Based on the information we reviewed with the e-Services project, we do not believe that the IRS' costs are a small percentage of the overall budget. For example, we identified an error of approximately \$1.6 million over a 16-month period, which was a relatively significant percentage of the total project budget for the same period of time.

The Clinger-Cohen Act¹ requires agency heads to design and implement a process for maximizing the value and assessing and managing the risks of their Information Technology acquisitions that provides a means for senior management to obtain timely information regarding progress (at established milestones) in terms of cost, capability of the system to meet requirements, timeliness, and quality.

We believe that our recommendation to review time charges monthly to verify the accuracy of these charges is a valid interim step that should be taken until progress is made towards refining current time keeping systems. While we believe our recommendation is worthwhile, we do not intend to elevate our disagreement concerning it to the Department of Treasury for resolution. Future Treasury Inspector General for Tax Administration reviews of modernization project costs will include assessments of how the IRS is accounting for its labor costs as a portion of total costs of the modernization effort.

cc: Deputy Commissioner for Modernization/Chief Information Officer IS
 Associate Commissioner, Business Systems Modernization IS:B
 Chief Counsel CC
 National Taxpayer Advocate TA
 Director, Legislative Affairs CL:LA
 Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
 Office of Management Controls N:CFO:F:M
 Audit Liaison:
 Associate Commissioner, Business Systems Modernization IS:B

¹ Clinger-Cohen Act, Pub. L. No. 104-106, Division E (1996) (codified at 40 U.S.C. Chapter 25).